ORIGINAL

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	

BELL ATLANTIC'S COMMENTS ON SPECIFIC QUESTIONS

Pursuant to the Commission's Public Notice,[1] attached are Bell Atlantic's[2] responses to the Commission's questions relating to specific issues in this proceeding. Attached to the responses are summaries of Bell Atlantic's revised universal service proposals.

Respectfully Submitted,

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[1] DA 96-1078 (rel. July 3, 1996).

[2] The Bell Atlantic telephone companies ("Bell Atlantic") are Bell Atlantic-Delaware, Inc.; Bell Atlantic-Maryland, Inc.; Bell Atlantic-New Jersey, Inc.; Bell Atlantic-Pennsylvania, Inc.; Bell Atlantic-Virginia, Inc.; Bell Atlantic-Washington, D.C., Inc.; and Bell Atlantic-West Virginia, Inc.

SUMMARY

Bell Atlantic's revised universal service plan, detailed in Attachments A and B to the responses to specific questions, contains two funds, both financed through surcharges on end user bills:

1. The Universal Service Fund. This fund has a high-cost component and a network assurance component. Eligibility for subsidies under the high-cost component will be based upon the state-wide average cost of local loops. States with average loop costs that exceed the national average will receive high-cost payments based upon a formula that takes into account the amount that the state's loop costs exceed the national average and the number of loops in the state. Based upon current data, thirty-three jurisdictions (states and territories) would receive funding under this proposal. Funding would go to the state rather than individual local exchange carriers (LECs). State public utility commissions would determine the best way of distributing the funds in order to best preserve universal service in high-cost areas

The network assurance component is designed to replace the existing Carrier Common Line Charge, the Transport Interconnection Charge, and other interstate contributions to maintaining a ubiquitous local network following the transition period established by the Commission's ***Interconnection*** decision. These contributions permit LECs that are subject to Part 36 jurisdictional separations rules to maintain the network infrastructure that enables them to make high-quality service available throughout their service area. End users will have a choice of local carriers, but, under this proposal, can be assured that at least one high-quality network is always available to them.

2. The Education and Library Fund. This fund will provide discount vouchers that schools and libraries may use to obtain the telecommunications services they need to provide access to the National Information Infrastructure. It is designed to give higher payments to schools in rural areas and those with a high percentage of students from low-income households. The schools and libraries may use their credit vouchers to obtain discounted telecommunications services from any carrier that serves their local area.

Attachment 1: Questions

Definitions Issues

1. Is it appropriate to assume that current rates for services included within the definition of universal service are affordable, despite variations among companies and service areas?

The Commission has not yet defined universal service -- that is an issue in this proceeding. If the Commission were to adopt the definition proposed in the Notice -- voice grade line connected to the public switched network with ability to place and receive calls, touch-tone, single party service, access to emergency services and to operator services -- the Commission's own data show that, on a nationwide basis, telephone service is affordable. The Commission's subscribership reports have shown a constant penetration level of approximately 95% of residential households over the past several years. This level may be close to the theoretical maximum, given that some customers choose not to maintain wireline telephone service in their homes. In fact, Chairman Hundt recently acknowledged that telephone service is currently affordable in his July 18, 1996 testimony before the House Telecommunications and Finance Subcommittee. Therefore, there is not a national affordability problem which requires a national, uniform solution.

There is, however, significant subscribership variation among states and among geographical areas within states. The causes of this variation differ widely, and many states are addressing areas with lower than average subscribership with a range of programs targeted to their specific needs. Bell Atlantic listed some of these programs in its region in its comments in CC Docket No. 95-115, a copy of which was appended to its comments in this proceeding.

A uniform high-cost universal service program cannot reasonably meet all these local needs. Instead of trying to develop such a program, the Commission should provide high-cost universal service funds to states which experience higher costs than the national average and empower the states to distribute the funds to meet affordability needs within their purview. Bell Atlantic's revised proposal for the sizing and distribution of this high-cost fund is attached.

2. To what extent should non-rate factors, such as subscribership level, telephone expenditures as a percentage of income, cost of living, or local calling area size be considered in determining the affordability and reasonable comparability of rates?

States should have the right to consider non-rate factors, such as those listed, in determining how best to distribute universal service funds to meet local affordability requirements. Affordability is, however, a subjective determination that cannot reasonably be based upon a fixed, uniform set of criteria or formulas.

3. When making the "affordability" determination required by Section 254(i) of the Act, what are the advantages and disadvantages of using a specific national benchmark rate for core services in a proxy model?

Affordability is the subjective determination of a customer as to the amount of financial resources that the customer is willing to spend for telephone service. Proxy models cannot address such subjective judgments, nor can they take into account variations in customer spending priorities among demographic and other groups or from community-to-community. At most, proxy models can yield benchmark figures that state commissions may use, along with other information, in deciding how to allocate high-cost universal service funds within their state.

4. What are the effects on competition if a carrier is denied universal service support because it is technically infeasible for that carrier to provide one or more of the core services?

Bell Atlantic is unaware of any local carrier that is technically incapable of providing the proposed "core" universal services in paragraph 16 of the Notice (voice-grade access to the public switched network, touch-tone, single party service, access to emergency services, and access to operator services). If there were, however, that carrier would be ineligible for high-cost funding under Section 214(e)(1). A potential competitor could have an increased interest in offering service in the area served by the incumbent, for two reasons. First, by offering a technically superior service, the competitor should be able to attain a significant market share. Second, by offering all of the "core" services, the new entrant could be eligible for universal service funding. The presence of the competitor, in turn, should give the incumbent an economic incentive to upgrade its network to enable it to offer all of the core services and become eligible for high-cost funding. All these results would benefit consumers.

5. A number of commenters proposed various services to be included on the list of supported services, including access to directory assistance, emergency assistance, and advanced services. Although the delivery of these services may require a local loop, do loop costs accurately represent the actual cost of providing core services? To the extent that loop costs do not fully represent the costs associated with including a service in the definition of core services, identify and quantify other costs to be considered.

The local loop is the principal component of the "core" universal services. Therefore, loop costs are a reasonable surrogate for the costs of all core services in determining relative costs among exchange carriers. The costs of providing non-loop core services should not impact significantly the statewide average costs so as to change the amount of universal service support flowing to the state, nor should those costs vary significantly among carriers.

6. Should the services or functionalities eligible for discounts be specifically limited and identified, or should the discount apply to all available services?

Bell Atlantic's revised universal service proposal for schools and libraries is detailed in Attachment B. Under that proposal, schools and libraries would have the right to use universal service funds for any available telecommunications services obtained from any carrier. Rural non-profit health care providers should be charged rates no higher than the state-wide average rate for telecommunications services they use in provision of health care service.

7. Does Section 254(h) contemplate that inside wiring or other internal connections to classrooms may be eligible for universal service support of telecommunications services provided to schools and libraries? If so, what is the estimated cost of the inside wiring and other internal connections?

The Commission has determined that inside wiring is deregulated and, therefore, not subject to the provisions of Title II of the Act. Accordingly, interstate funds should not be used to finance inside wiring as part of the Section 254 universal service program. Also, because only carriers are eligible to receive universal service funds under the Act, financing inside wiring under this program would make non-carrier providers of such wiring ineligible to participate. The Commission has not preempted state regulation of inside wiring, so states should be free to use intrastate funds for this purpose. A better way to proceed, however, is for inside wiring and classroom connections to be installed by local volunteers rather than using universal service funds.

If, however, the Commission were to fund inside wiring through universal service support funds, Project KickStart estimates the initial nationwide cost of installing such wiring in all public schools at $5 billion for the partial classroom model. The annual cost of maintaining and augmenting the wiring will be approximately $400 million. These estimates do not include indirect costs, such as deferred building maintenance (e.g., asbestos removal) that, in any event, should not be financed through universal service funding

8. To what extent should the provisions of Sections 706 and 708 be considered by the Joint Board and be relied upon to provide advanced services to schools, libraries and health care providers?

Under Bell Atlantic's proposal, each school or library will decide which services it will subscribe to using its universal service funds. This proposal, therefore, eliminates the need for the Commission to compile a list of advanced services that are eligible for universal service funding by shifting that determination to each school and library based upon its particular needs.

9. How can universal service support for schools, libraries, and health care providers be structured to promote competition?

Schools and libraries may use their universal service funds to obtain services from any local service provider or providers of their choosing. Therefore, all competitors will have an incentive to market their services to schools and libraries and, where states permit, to offer additional discounts to obtain or retain them as customers. In addition, the universal service support program, by increasing the overall telecommunications service demand in a given community, may encourage more competitors to enter geographical areas that they otherwise would not serve.

10. Should the resale prohibition in Section 254(h)(3) be construed to prohibit only the resale of services to the public for profit, and should it be construed so as to permit end user cost based fees for services? Would construction in this manner facilitate community networks and/or aggregation of purchasing power?

Schools should not be permitted to charge fees to students for use of services funded under this program. It should be permissible to charge reasonable fees to the public for use of these services in schools (outside of school hours) and libraries to cover administrative costs.

11. If the answer to the first question in number 10 is "yes," should the discounts be available only for the traffic or network usage attributable to the educational entities that qualify for the Section 254 discounts?

Administrative fees charged to the public should not affect the support payments to schools or libraries. If resale were permitted, which it is not resale revenue should reduce the level of support payments the schools or libraries receive.

12. Should discounts be directed to the states in the form of block grants?

Payments should be directed to the schools (based on demographics, e.g., rural/urban status, number of students, income level of area served) in order to fund the desired services.

13. Should discounts for schools, libraries, and health care providers take the form of direct billing credits for telecommunications services provided to eligible institutions?

Yes.

14. If the discounts are disbursed as block grants to states or as direct billing credits for schools, libraries, and health care providers, what, if any, measures should be implemented to assure that the funds allocated for discounts are used for their intended purposes?

Under Bell Atlantic's proposal, non-profit schools and libraries (identified by each state) receive discounts in the form of billing credit vouchers. These credits may be used to obtain telecommunications services from any common carrier. Only carriers may submit the vouchers for reimbursement. This ensures that schools and libraries use the funds only to obtain telecommunications services. A school or library need not spend the funds in the year received but may accumulate the credits until it has a plan in place to use them effectively.

15. What is the least administratively burdensome requirement that could be used to ensure that requests for supported telecommunications services are bona fide requests within the intent of section 254(h)?

Bell Atlantic's proposal does not create administrative burdens. States identify eligible schools and libraries. The payments will be made in the form of credit vouchers that can be used only for telecommunications services. The amount of the credits is established by a formula, and schools and libraries need not submit detailed plans to a state or federal agency. They need not have a program in place when the initial payments are distributed but may accumulate payment vouchers until an effective plan is developed and implemented. Localities are empowered to insure that the funds are used effectively.

16. What should be the base service prices to which discounts for schools and libraries are applied: (a) total service long-run incremental cost; (b) short-run incremental costs; (c) best commercially-available rate; (d) tariffed rate; (e) rate established through a competitively-bid contract in which schools and libraries participate; (f) lowest of some group of the above; or (g) some other benchmark? How could the best commercially-available rate be ascertained, in light of the fact that many such rates may be established pursuant to confidential contractual arrangements?

In addition to the payments (credit vouchers), which are the discounts to the schools and libraries mandated by the Act, schools and libraries may negotiate individually or collectively to obtain volume discounts, as permitted under state regulation. Carriers should be as willing to negotiate such discounts with schools and libraries as they are to provide them to commercial customers, because they will gain or retain business that they otherwise would lose to competition. These negotiated price reductions will provide a further discount to the schools and libraries on top of those mandated by statute

17. How should discounts be applied, if at all, for schools and libraries and rural health care providers that are currently receiving special rates?

The discount vouchers may be used to obtain telecommunications services at the prevailing rates. Those prevailing rates should include any preferential rates the schools and libraries already receive. Any preferential rates that are already in place for rural health care providers that are lower than the state-wide average rate for comparable services should remain in effect.

18. What states have established discount programs for telecommunications services provided to schools, libraries, and health care providers? Describe the programs, including the measurable outcomes and the associated costs.

In Maryland, Bell Atlantic offers a distance learning broadband service for public high schools, community colleges, and universities that is priced at approximately 50% of the rate charged to other ratepayers. In West Virginia, Bell Atlantic and the state have negotiated a low preferential contract rate for all K-12 public schools for frame relay connections to the Internet for classroom and administrative uses. In Virginia, Bell Atlantic recently announced a program to link schools, colleges, government offices, libraries, and other public buildings.

19. Should an additional discount be given to schools and libraries located in rural, insular, high-cost and economically disadvantaged areas? What percentage of telecommunications services (e.g., Internet services) used by schools and libraries in such areas are or require toll calls?

Under Bell Atlantic's proposal, the amount of the credit vouchers will take into account the additional costs of service in rural, insular, high-cost and economically disadvantaged areas. The need to pay for toll calls to reach Internet providers will vary frequently as Internet providers enter and depart the marketplace. Bell Atlantic's formula does, however, provide additional funding if the school is a considerable distance from an interexchange Point of Presence to defray the cost of dedicated access to that location

20. Should the Commission use some existing model to determine the degree to which a school is disadvantaged (e.g., Title I or the national school lunch program)? Which one? What, if any, modifications should the Commission make to that model?

Bell Atlantic's proposal includes a factor for household income level in the area served by the school to ascertain whether a school is disadvantaged

21. Should the Commission use a sliding scale approach (i.e., along a continuum of need) or a step approach (e.g., the Lifeline assistance program or the national school lunch program) to allocate any additional consideration given to schools and libraries located in rural, insular, high-cost, and economically disadvantaged areas?

Bell Atlantic's proposal includes a "per-student" factor in the formula to determine the amount of voucher payments that will be given to schools and libraries. It adds an increment of support for each student that is from a low-income household and for each one that lives in a rural area.

22. Should separate funding mechanisms be established for schools and libraries and for rural health care providers?

Since all telecommunications providers must pay into the universal service fund, there can be a single collection mechanism for both the high cost fund and the education/library/health care fund. Each fund, however, would be sized and distributed individually.

23. Are the cost estimates contained in the McKinsey Report and NII KickStart Initiative an accurate funding estimate for the discount provisions for schools and libraries, assuming that tariffed rates are used as the base prices?

The NII KickStart numbers provide a reasonable initial funding estimate for public schools. Inclusion of private schools would increase the total funding level by about 40%. The cost estimates may require adjustment based upon experience.

24. Are there other cost estimates available that can serve as the basis for establishing a funding estimate for the discount provisions applicable to schools and libraries and to rural health care providers?

The KickStart estimate is the most widely-accepted, and the Commission is urged to used that level as its benchmark.

25. Are there any specific cost estimates that address the discount funding estimates for eligible private schools?

Inclusion of private schools would increase the total funding level by about 40%.

High-Cost/Network Assurance Fund

Bell Atlantic has prepared a revised universal service fund proposal with two components. The high-cost component provides that states with loop costs that exceed the national average will receive high-cost funding. Those states would then distribute the funds to eligible carriers within their jurisdiction based upon local needs. To facilitate administration, average loop costs incurred by all incumbent LECs would be aggregated to determine the statewide average loop cost. This statewide figure would be used as a surrogate for the costs of all eligible telecommunications carriers certified to provide exchange service within the state.

The second part of this fund, the network assurance component, will enable Local Exchange Carriers (LECs) that are subject to Part 36 jurisdictional separations rules to continue to offer ubiquitous high-quality service within their service area. This component of the fund would provide revenues to cover those interstate costs that are defined under the Commission's rules that the LECs will otherwise be unable to recover in service rates under the Commission's Order in the CC Docket No. 96-98 ***Interconnection*** *proceeding.*

Bell Atlantic's proposal for this fund is detailed in Attachment A.

General Questions

26. If the existing high-cost support mechanism remains in place (on either a permanent or temporary basis), what modifications, if any, are required to comply with the Telecommunications Act of 1996?

The Commission must make affirmative findings specifying the "core" services eligible for high-cost support and the explicit subsidy mechanism for providing that support. By basing support payments on average state-wide high costs rather than on high-cost LECs, Bell Atlantic's proposal will help remove incentives on the part of some LECs to increase costs, sell exchanges, or defer modernization in order to remain eligible for subsidies. States that receive payments can best assess each LEC's need for subsidies and can distribute funds in a manner which insures that the funds flow to those companies serving areas that require support in order to provide service at reasonable and affordable rates. By financing both the high-cost fund and the maintenance fund through surcharges on end-user bills from all carriers, the Commission will meet the statutory requirement to make the universal service funding mechanism explicit, predictable, and nondiscriminatory.

27. If the high-cost support system is kept in place for rural areas, how should it be modified to target the fund better and consistently with the Telecommunications Act of 1996?

Under the Bell Atlantic proposal, high-cost support would be targeted to high-cost states, without differentiating between rural and non-rural areas. States that receive funds would have broad discretion to distribute the funds to incumbent LECs and new entrants, subject to statutory requirements. These include the requirement that rural areas have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas, and that the rates charged are reasonably comparable to rates charged for similar services in urban areas. In deciding how to distribute the high-cost funds pursuant to the statutory requirements, states should take into account factors that they find appropriate to meet local conditions, such as existing rates levels, per capita income, economic/market conditions, service quality, population density, demographics, and geographic characteristics.

28. What are the potential advantages and disadvantages of basing the payments to competitive carriers on the book costs of the incumbent local exchange carrier operating in the same service area?

The incumbent LEC's book costs, which can be readily obtained from public filings, can serve as a reasonable surrogate for the loop costs within a geographical area. Under Bell Atlantic's proposal, costs would be aggregated on a state-wide basis, so that aberrations caused by an individual LECs' inflated costs or other factors would have little impact on high-cost funding. It is reasonable to assume that the costs of new entrants would approximate, on average, those of incumbent LECs in the state. States should have the flexibility to consider books costs and other relevant factors when distributing high-cost universal service funds within the state.

29. Should price cap companies be eligible for high-cost support, and if not, how would the exclusion of price cap carriers be consistent with the provisions of section 214(e) of the Communications Act? In the alternative, should high-cost support be structured differently for price cap carriers than for other carriers?

Under Section 214(e), the states are authorized to designate eligible carriers that offer "core" universal services and advertise their availability. This Commission may not limit the states' authority by eliminating classes of carriers, such as price cap LECs, from those eligible to receive universal service funds. Even if the Commission had that authority, there is no reason for adopting such a blanket disqualification. Non-price cap carriers have no monopoly on experiencing high costs when serving certain geographical areas. Price cap carriers in high cost areas that demonstrate to the state the need for subsidy should be eligible for funding. Support should not be based upon the size or regulatory status of the carrier. Moreover, if price cap carriers were ineligible for funding, then a competitor serving the same areas should likewise be ineligible. This could discourage competition, because it might be difficult for a new entrant to justify the investment needed to enter the market. Such a ruling would also increase the incentive for price cap carriers to sell high-cost exchanges to non-price cap carriers to enable them to obtain universal service subsidies.

30. If price cap companies are not eligible for support or receive high-cost support on a different basis than other carriers, what should be the definition of a "price cap" company? Would companies participating in a state, but not a federal, price cap plan be deemed price cap companies? Should there be a distinction between carriers operating under price caps and carriers that have agreed, for a specified period of time, to limit increases in some or all rates as part of a "social contract" regulatory approach?

As this question demonstrates, the definition of a price cap carrier varies from state-to-state, and carriers may be under price caps for some services but not others. In addition, as noted in the question, carriers may be covered by price cap rules for specified periods of time. The lack of consistency and permanence in defining carriers as in or out of price caps provides an additional reason why price caps is inappropriate criterion in determining eligibility for universal service funding.

31. If a bifurcated plan that would allow the use of book costs (instead of proxy costs) were used for rural companies, how should rural companies be defined?

As discussed above, Bell Atlantic urges the Commission not to adopt a bifurcated plan. By basing high-cost support on state-wide averaged costs (using book, not proxy costs), the Commission will allow states to ascertain local needs without the need to impose a complex regulatory scheme.

32. If such a bifurcated approach is used, should those carriers initially allowed to use book costs eventually transition to a proxy system or a system of competitive bidding? If these companies are transitioned from book costs, how long should the transition be? What would be the basis for high-cost assistance to competitors under a bifurcated approach, both initially and during a transition period?

See answer to question 31.

33. If a proxy model is used, should carriers serving areas with subscription below a certain level continue to receive assistance at levels currently produced under the HCF and DEM weighting subsidies?

Bell Atlantic's proposal would eliminate the need to add such complexities to an already complex high-cost support program. Use of book costs to derive statewide average loop costs, rather than employing proxy models to derive surrogate costs, would simplify the program and allow high-cost states to target support payments to the need.

Proxy Models

34. What, if any, programs (in addition to those aimed at high-cost areas) are needed to ensure that insular areas have affordable telecommunications service?

Besides high-cost assistance, Lifeline/Linkup programs should continue to be available to all areas, insular and non-insular

35. US West has stated that an industry task force "could develop a final model process utilizing consensus model assumptions and input data," US West comments at 10. Comment on US West's statement, discussing potential legal issues and practical considerations in light of the requirement under the 1996 Act that the Commission take final action in this proceeding within six months of the Joint's Board's recommended decision.

Given the statutory time constraints and the existing range of views on cost models, it is unlikely that a consensus could be developed in a timely manner. Moreover, proxy cost models merely add complexity to the interstate high-cost universal service process. Bell Atlantic's proposal simplifies the existing mechanism while allowing high-cost subsidies to be better targeted. State-wide averaged book costs should determine payments to the states. States would have the option of using proxy cost models, along with any other relevant information, in determining how to distribute the funds to eligible telecommunication providers within their jurisdiction.

36. What proposals, if any, have been considered by interested parties to harmonize the differences among the various proxy cost proposals? What results have been achieved?

Bell Atlantic has no relevant information at this time.

37. How does a proxy model determine costs for providing only the defined universal service core services?

Bell Atlantic urges that state-wide average loop costs, derived from incumbent LECs' book costs, not proxy model costs, be used to determine what states should receive federal high-cost universal service support and the amount of such support.

38. How should a proxy model evolve to account for changes in the definition of core services or in the technical capabilities of various types of facilities?

If proxy models are used, they could be updated to look at the forward-looking costs of providing any services that are added to the core list. This should not be necessary, however, because, as competition increases nationwide, the need for high-cost universal service support should decrease significantly.

39. Should a proxy model account for the cost of access to advanced telecommunications and information services, as referenced in section 254(b) of the Act? If so, how should this occur?

Bell Atlantic's proposals do not require the use of proxy models for developing federal universal service funding.

40. If a proxy model is used, what, if any, measures are necessary to assure that urban rates and rates in rural, insular, and high-cost areas are reasonably comparable, as required in Section 254(b)(3) of the 1996 Act.

Bell Atlantic's proposals do not require use of proxy models to determine federal universal service funding. A comparison of high-cost, rural and insular rates to the statewide average will meet statutory requirements.

41. How should support be calculated for those areas (e.g., insular areas and Alaska) that are not included under the proxy model?

Bell Atlantic does not advocate use of proxy models for federal universal service funding. High-cost support should be based upon state-wide average loop costs.

42. Will support calculated using a proxy model provide sufficient incentive to support infrastructure development and maintain quality service?

Support calculated using Bell Atlantic's proposal will provide such incentives.

43. Should there be recourse for companies whose book costs are substantially above the costs projected for them under a proxy model? If so, under what conditions (for example, at what cost levels above the proxy amount) should carriers be granted a waiver allowing alternative treatment? What standards should be used when considering such requests?

Use of actual, averaged, state-wide costs provides a more accurate and appropriate measure than projections derived through proxy models. Use of Bell Atlantic's high-cost proposal removes the need for waivers.

44. How can a proxy model be modified to accommodate technological neutrality?

Bell Atlantic does not advocate use of proxy models for the federal universal service fund.

45. Is it appropriate for a proxy model adopted by the Commission in this proceeding to be subject to proprietary restrictions, or must such a model be a public document?

If the information in a proxy model is competitively-sensitive, that information should be withheld from public inspection. The information may be made available either in redacted form or subject to a protective order, as the Joint Parties (including Bell Atlantic) proposed in their comments in CC Docket No. 96-55.

46. Should a proxy model be adopted if it is based on proprietary data that may not be available for public review?

Whether or not the model contains proprietary information should not be a factor in deciding whether or not it should be adopted. Bell Atlantic's position is, however, that the Commission should not adopt such a model.

47. If it is determined that proprietary data should not be employed in the proxy model, are there adequate data publicly available on current book costs to develop a proxy model? If so, identify the source(s) of such data.

Bell Atlantic urges that the Commission continue to use ARMIS and Separations data for this purpose -- the data that it has traditionally used in administering the Universal Service Fund. LECs that are not required to prepare these data should use data from their corporate books. The data should, however, be aggregated on a state-wide basis rather than a study area basis.

48. Should the materiality and potential importance of proprietary information be considered in evaluating the various models?

No.

Competitive Bidding

49. How would high-cost payments be determined under a system of competitive bidding in areas with no competition?

If a competitive bidding system were employed, such payments could be based upon those in comparable areas that have competition.

50. How should a bidding system be structured in order to provide incentives for carriers to compete to submit the low bid for universal service support?

An auction-type bidding system should provide sufficient competition to provide an incentive for carriers to submit low bids.

51. What, if any, safeguards should be adopted to ensure that large companies do not bid excessively low to drive out competition?

Many of the competing bidders will be large, well-financed companies that would have no incentive to bid so low as to lose money on the services they propose to offer. If the large companies submit compensatory bids, there is no reason to expect that small companies, which may have lower costs, could not compete.

52. What safeguards should be adopted to ensure adequate quality of service under a system of competitive bidding?

The Commission, and state Commissions, should continue to monitor and regulate service quality. Bidders should be informed that, if they fail to maintain prescribed service quality levels, they will be subject to forfeitures and other sanctions.

53. How is collusion avoided when using a competitive bid?

The Commission has had considerable recent experience with competitive bidding processes and should use the same protections against collusion that it has employed in the past.

54. Should the structure of the auction differ if there are few bidders? If so, how?

No. An effective competitive bidding situation may involve as few as two bidders.

55. How should the Commission determine the size of the areas within which eligible carriers bid for universal service support? What is the optimal basis for determining the size of those areas, in order to avoid unfair advantage for either the incumbent local exchange carriers or competitive carriers?

The Commission should use existing exchange areas.

Benchmark Cost Model (BCM) (Questions 56-63)
Cost Proxy Model Proposed by Pacific Telesis (Questions 64-68)

Bell Atlantic has no comments to submit on these models at this time.

SLC/CCLC

69. If a portion of the CCL charge represents a subsidy to support universal service, what is the total amount of the subsidy? Please provide supporting evidence to substantiate such estimates. Supporting evidence should indicate the cost methodology used to estimate the magnitude of the subsidy (e.g., long-run incremental, short-run incremental, fully-distributed).

The existing Carrier Common Line Charge ("CCLC"), along with the Subscriber Line Charge, were created to recover the interstate non-traffic sensitive costs of the local loop and certain central office equipment that the Commission has defined in Part 36 of its rules. These charges contribute to the LECs' ability to provide a ubiquitous network, as discussed in Attachment A.

Long Term Support ("LTS") is an implicit subsidy that non-pooling LECs pay to NECA common line pooling LECs to allow the latter to recover their non-traffic sensitive costs at access rates comparable to the nationwide average rate. The purpose is to help retain uniform toll rates. NECA has informed Bell Atlantic and other contributing LECs that nationwide LTS subsidies are currently nearly $450 million.

70. If a portion of the CCL charge represents a contribution to the recovery of loop costs, please identify and discuss alternatives to the CCL charge for recovery of those costs from all interstate telecommunications service providers (e.g., bulk billing, flat rate/per-line charge).

Bell Atlantic's proposal, discussed in Attachment A, provides an alternative mechanism for recovering the interstate costs that are currently recovered through the CCLC, the Transport Interconnection Charge, and other interstate services affected by the **Interconnection** *decision.*

Low-Income Consumers

71. Should the new universal service fund provide support for the Lifeline and Linkup programs, in order to make those subsidies technologically and competitively neutral? If so, should the amount of the lifeline subsidy still be tied, as it is now, to the amount of the subscriber line charge?

Pursuant to Section 254(j), the Commission need not change these programs to comply with the legislation.

72. Section 254(d) of the 1996 Act provides that the Commission may exempt carriers from contributing to the support of universal service if their contribution would be "de minimis." The conference report indicates that "[t]he conferees intend that this authority would only be used in cases where the administrative cost of collecting contributions from a carrier or carriers would exceed the contribution that carrier would otherwise have to make under the formula for contributions selected by the Commission." What levels of administrative costs should be expected per carrier under the various methods that have been proposed for funding (e.g., gross revenues, revenues net of payments to other carriers, retail revenues, etc.)?

Exemptions should be granted on an ad hoc *basis upon a showing from the carrier (or by a group of carriers) that the costs of collecting the contributions would exceed the amount of the contributions.*

ATTACHMENT A

Bell Atlantic's Universal Fund Proposal

Bell Atlantic's Universal Service Fund proposal has two components.[1] One, the targeted high-cost component, provides subsidies to states with loop costs that exceed the national average. This component is administered by the states. The other, the network assurance component, ensures that local exchange carriers (LECs) that are subject to the Commission's Part 36 jurisdictional separations rules continue to have the ability to recover the costs that those rules assign to the interstate jurisdiction. The recovery of those defined costs is essential to enable the LECs to continue providing the ubiquitous local exchange service which remains the cornerstone of the nationwide telephone network. Bell Atlantic's proposal is fully consistent with the 1996 Act, which bans implicit subsidies, and balances the continued need for ubiquitous local service with the competitive policies of the Act. Both the high-cost and network assurance components are based upon actual embedded costs and are financed through explicit surcharges on all end-user telephone bills in order to assure competitive neutrality. Use of embedded costs provides a standard, quantifiable basis for calculating funding levels.

High-Cost Component

The objective of Bell Atlantic's revised proposal is to provide federal funding that is targeted to states that have statewide average costs per loop (SACL) that exceed the nationwide average cost per loop (NACL).

The principal differences between this proposal and the existing funding mechanism are:

1) the universal service funding that a state receives is based on the statewide average cost per loop, instead of an individual LEC's cost per loop, relative to the nationwide average;
2) distribution of funds to eligible carriers is at the direction of the state commissions.

Under this proposal, states with above-average loop costs will receive interstate funds that they may use to reduce rates in geographical areas in which charges for "core" universal services would otherwise not be reasonable and affordable. Distribution by the state commissions will better allow the funds to be targeted to eligible carriers in a manner consistent with local needs, taking into account those factors that are relevant to conditions in the particular jurisdiction.

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[1] A second fund, for schools and libraries, is discussed in Attachment B. In addition, programs offering assistance to low-income households would remain in effect, pursuant to 47 U.S.C. § 254(j).

The total size of the high-cost component would be based on the most recent nationwide loop cost data submitted by the exchange carrier industry to the National Exchange Carrier Association. To provide for appropriate growth, the high-cost component of the fund could be adjusted annually by some relevant factor such as access line growth or an inflation index.

There would be three basic adjustments to the funding mechanism. The adjustments would ensure that only those states with above average costs per loop would receive funding and recognize that states with higher costs and relatively fewer loops should receive proportionately higher funding.

1. In order for any state to qualify for funding, the statewide average cost per loop would have to be greater than the nationwide average cost per loop. The current nationwide average cost per loop is $248.00. Based on the most recent data, 33 jurisdictions (states and eligible United States territories and possessions) would qualify for funding.

2. An adjustment factor to recognize the amount by which a state's average cost per loop exceeds the nationwide average. A sliding adjustment scale would be used to give additional weighting to states farther above the nationwide average than those closer to the nationwide average.

Illustrative adjustment factors might be:

SACL as a percent of NACL	Weighting Factor
>100% to 125%	.25
>125% to 150%	.50
>150% to 175%	.75
>175%	1.00

3. A factor to recognize the number of loops in a particular jurisdiction relative to the nationwide average number per jurisdiction. This adjustment is an attempt to equalize a state's ability to absorb above average loop costs over the number of loops in the jurisdiction. The nationwide average loops per jurisdiction (2,845,504) is computed by dividing the total USF Loops (153,657,189) by 54 (the number of jurisdictions currently participating in the USF).

Illustrative adjustment factors might be:

Number of Loops in Jurisdiction as a percent of Nationwide Average Per Jurisdiction	Weighting Factor
Up to 50%	1.00
> 50% to 100%	.75
>100% to 150%	.25
>Above 150%	.10

If a state qualifies for funding, the adjustment factors would apply to the difference between a state's average cost per loop and the nationwide average. For example, a jurisdiction with a SACL of $375 (151% of the NACL) and a number of loops that is 120% of the average per jurisdiction would receive $23.81, i.e., ((375 - 248)=127*(.75*.25)), per loop per year. A jurisdiction with a SACL above 175% of the NACL and loops less than 50% of the nationwide average per jurisdiction would receive 100% of the difference between its SACL and the NACL.

Network Assurance Component

The Commission's decision in the ***Interconnection*** Proceeding, CC Docket No. 96-98, adopted August 1, 1996, provides a transition period, after which the LECs will no longer recover either Carrier Common Line Charges (CCLC) or the remaining 75% of Transport Interconnection Charges (TIC) from subscribers to the unbundled local switching network element.[2] That transition period will end on the earlier of three dates, one of which is the issuance of final decisions in this proceeding and in the forthcoming access reform proceeding.[3] It is therefore appropriate for the Commission to establish in this proceeding a mechanism to recover the interstate costs that are defined in the Commission's Rules which the ***Interconnection*** order may make otherwise unrecoverable

The future inability to recover these costs, in turn, could erode the LECs'[4] ability to maintain ubiquitous telephone service access within their service area. While some consumers will choose competitors' service offerings, the LEC still must be able to provide quality service to **any** potential subscriber that chooses to subscribe. In order to continue to have resources to enable them to maintain ubiquitous service availability within their service area, LECs must be able to recover their interstate costs, as defined in the Commission's rules.

The revenues to cover these defined interstate costs are currently provided through various mechanisms -- most currently incorporated in the Commission's access charge rules. These mechanisms include the Subscriber Line Charge and CCLC, which cover the interstate portion of non-traffic sensitive loop costs and certain central office costs; the TIC, which includes both specific facility costs (such as a portion of Tandem Switching costs) and additional network costs which LECs have incurred to deploy and maintain a ubiquitous local exchange network; and other services, such as local switching and transport, which recover additional interstate costs. All of these forms of interstate cost recovery would be eroded under the Commission's ***Interconnection*** decision. Moreover, insofar as the ***Interconnection*** decision also impinges on revenue streams from state-regulated services that support ubiquitous local exchange service,

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[2] Report No. DC 96-75 at 5 (rel. Aug. 1, 1996).

[3] ***Id.***

[4] For this purpose, the term "LEC" includes all those exchange carriers that are subject to the Commission's Part 36 jurisdictional separations rules, including average schedule companies.

such as vertical services, it is incumbent upon the Commission to allow for recovery of such revenues.

The costs on which the network assurance component of the Universal Service Fund is based are the interstate costs as defined in Parts 36 and 61 (for price cap LECs) and Parts 36 and 69 (for rate-of-return companies). The amount any LEC would receive in a given year would be the access revenues received in the tariff year prior to implementation of the ***Interconnection*** order less revenues received from remaining access charges and other applicable interstate revenues in the year in question.

This component replaces or supplements existing cost recovery mechanisms in the existing access charge rules with an explicit competitively neutral alternative way to ensure continued availability of a ubiquitous local exchange network. It provides the resources, that would otherwise be lost, to enable LECs to continue to make high-quality telephone service available to **any** customer in their service area -- urban, rural, or suburban -- that chooses to subscribe to their service. Those customers, in turn will be assured of obtaining or retaining the "core" set of high-quality telecommunications services that the Commission finds should be made universally available.

ATTACHMENT B

Bell Atlantic's Education/Libraries Proposal

A major initial step towards attaining universal access for education to the National Information Infrastructure ("NII") is getting the classrooms connected. According to the National Infrastructure Advisory Council's *KickStart Initiative*, the nationwide costs for connecting public K-12 classrooms is $1.7 billion, with recurring costs of $1 billion per year for the "outside the school connections." Adding private schools would increase these costs by 40%. These figures exclude inside wiring, which would add $5 billion and $400 million to the startup and recurring costs. Bell Atlantic's proposal, which would fund the outside telecommunication service connections, consists of a "purchasing power" approach that enables all schools and libraries to obtain needed services. The purchasing power approach would be implemented as follows.

Bell Atlantic proposes that school and libraries receive discounts from the non-recurring and recurring costs of their needed telecommunications services in the form of credit vouchers. These vouchers may be used to obtain any telecommunications services that they need for interconnection with the NII from any telecommunications carrier that serves their area. The amount of the credit vouchers would be based upon a formula that considers the number of students enrolled in the school, the location (urban or rural), and the number of students from low-income households (i.e., Title 1 students). A "typical" school, in an urban or suburban area, with 400 students, 25% of whom are eligible for Title 1 programs, would receive a $9,157 voucher for initial startup costs and a $4,295 voucher annually for recurring telecommunications costs. A comparable rural school would receive $16,849 for startup costs and $7,000 per year.

The amount of the credit proposed to be provided to libraries is based upon the KickStart estimates of the price of the connections needed for libraries to receive NII access. Libraries would receive credit vouchers covering the discounts of 75% of the non-recurring charges and 50% of the recurring charges. Each of the approximately 15,000 eligible libraries would receive vouchers for $3200 for startup charges and $3933 annually for recurring charges. Nationwide, the cost of the library connection program would be about $48 million for startup costs and $58 million annually for recurring costs.

On average, the "purchasing power" credit vouchers would give a 75% discount from the non-recurring charges and 50% from the recurring charges for the typical mix of telecommunications services that each school and library would need to provide NII access. In addition, schools and libraries would be free, individually or collectively, to negotiate volume or other discount rates from the carriers that are competing to provide them services, subject to any regulatory requirements and restrictions. Likewise, any preferential rates already given to schools and libraries would not be affected by this

proposal. Any such preferential rates or negotiated discounts would not affect the amount of the purchasing power credit vouchers that a school or library may receive.

The list of eligible schools and libraries the relevant demographics for determining the actual amount of the discount which each will receive would be provided by each state. This discount would be sent directly to the schools and libraries as a credit voucher that may be used with any telecommunications carrier The vouchers need not be used in the year received. A school or library may save the vouchers until they have the infrastructure and training in place to use them effectively without thereby reducing the next years' funding.

The funding calculation takes into account higher costs that may be experienced by rural schools, and a similar funding differential could be added to the library program. Rural schools and libraries sometimes face higher costs to connect to the Internet because of their distance from the nearest interexchange point of presence. This increases the interoffice mileage component of their dedicated access services. Bell Atlantic's purchasing power approach would include an additional payment to reimburse schools in remote rural areas (for example. those facing interoffice mileage in excess of 20 miles) for these increased mileage charges.

CERTIFICATE OF SERVICE

I hereby certify that on this 2nd day of August 1996 a copy of the foregoing "Bell Atlantic's Comments on Specific Questions" was sent via first class mail, postage prepaid, to the parties on the attached list.

Tracey DeVaux

* Via hand delivery.